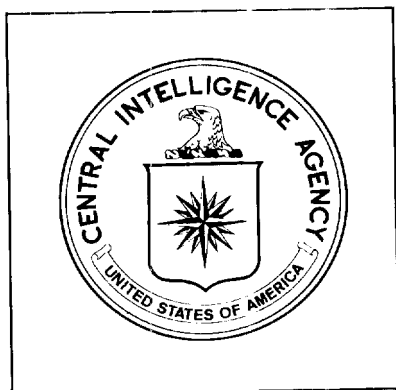



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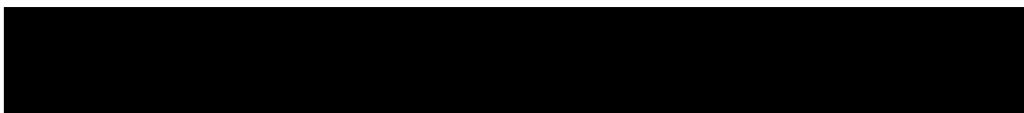
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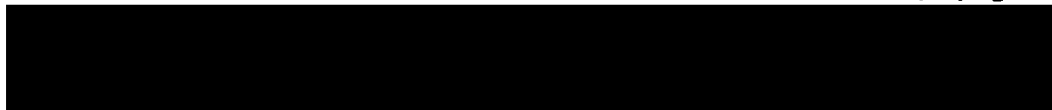
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Bahrain

Government Regulations Encounter Resistance

The Bahraini government, which has recently undertaken steps to regulate the prices of some essential consumer goods and services, is meeting resistance from businessmen on the Persian Gulf island. Merchants apparently complied with the price controls for about a week, but the regulated goods have since been pulled off the shelves. Last week, taxi drivers went on a two-day strike protesting the profit margin allowed them under the new regulations.

Emir Isa's government has not reacted yet to the quiet challenge, according to the US embassy in Manama. But with the government's credibility on bread-and-butter issues at stake, the embassy believes it will be difficult for Manama to back away from the issue.

When the Khalifas, Bahrain's ruling family, abolished the National Assembly last August, they blamed the "uncooperative" legislature for previous inaction and promised that quick and effective measures would be taken to deal with the island country's severe housing shortage and rapidly rising cost of living. According to a recent government-sponsored survey, the average Bahraini family spends 46 percent of its income on food.

The Khalifas' regime is likely to face future political trouble if it does not make credible progress in solving economic problems. Bahrain's unorganized, but growing industrial work force--the Khalifas have been stalling on demands to allow labor unions--and the island's sophisticated middle class could become so frustrated by economic woes as to be receptive to radical efforts to mobilize public opinion against the government. (CONFIDENTIAL)

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